

Public Service Reform in China

Lisheng Dong^{*}

Xuanhui Liu^{**}

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The article reviews the history of public service reform in China. It shows the special path of public service reform in a country transformed from a planned socialist mechanism to a market economy. The public service reform in China is distinctive by its incremental nature. The article is based on the theory of historical institutionalism. The analysis of path dependence of the reform is made from the perspectives of political context, economic foundation, and globalization. The qualitative research method is employed. The article concludes with a summary of current problems and prediction for the future of public service reform in China.

Keywords: public service reform, China, historical institutionalism, path dependence, transition

^{*} Professor Lisheng Dong, Marie Curie Research Professor of the School of Political and Social Sciences, University of Glasgow, United Kingdom (gostujući profesor Fakulteta političkih i društvenih znanosti, Sveučilište Glasgow, Ujedinjeno Kraljevstvo, e-mail: lsdong1955@yahoo.com)

^{**} Xuanhui Liu, PhD, Economics and Management School, Xi'an Technological University (Fakultet ekonomije i menadžmenta, Xi'an Tehničko Sveučilište, Kina, e-mail: xuanhui.liu@foxmail.com)

1. Introduction

Public service reform gained prominence in the previous decade in China since the articulation of the party-state's policy intent of promoting a service-oriented government.¹ With the economic and social development since the founding of the People's Republic in 1949, the scope and content of public service have changed rapidly. Especially after the reform and opening up policy in 1978, the public service reform has shown the so-called Chinese characteristics, which differentiate China's reform from the former East European communist countries. To some extent, the pragmatic philosophy or dialectic thoughts pay more attention to the effectiveness of the reform regardless of the ideological orthodoxy. It coincides with China's transition from the planned economy to market economy (Jiang, Deng, 2009). The public service reform in China can be distinguished by its incremental nature.

From a theoretical perspective, public service reforms are influenced by internal and external factors in a given country. The public and academic debates frame the policy intent and contents, such as what kind of public service is preferable, who provides the public goods more effectively, how to make sure public service is offered efficiently and how can citizens access the public service equally (Huai, Liu, 2007; Rainey, Steinbauer, 1999). In theory and practice, the content of public service reforms goes along with economic and social development in a specific context. The public service sector also shows a trend of reforms in public administration and the civil service. Further, it can be influenced by such factors as international politics, the pressure of domestic economic development, globalization, and the awakening of civil rights. The institutional changes can explain the trajectory of public service reforms and predict their future evolution.

This article focuses on the transition of public service provision in China with insights into the Chinese experiences. Based on the theory of historical institutionalism, it attempts to review the evolution of public service reform from path dependence perspective. The qualitative research method is employed. The analyses are based on official documents and previous research. The paper is structured into five parts. Following a short introduction, the second part describes the history of public service reform

¹ This concept was put forth for the first time by the Prime Minister Wen Jiabao in February 2004 (see Xu, 2004).

in China. The third part analyses the relevant institutional changes. The fourth part further discusses recent trends emphasising the challenges China faces that are significant to the future of public service reform. The final part summarizes the findings and meaning of the Chinese case in a broader context.

2. The History of Public Service Reform in China

The Chinese scholars have divided the stages of public service reform in China differently, according to their understanding or need of their explanations (He, 2013; Jiang, Deng, 2009; Liu, 2009). In order to give the readers a clear outline, we use a relatively long time frame based on the distinguished characteristics of social and economic changes in China since 1949. Thus, we present the following three stages: the reforms before 1978, from 1978 to 2000, and after 2000.

2.1. Public Service Reform before 1978

The public service system has made rapid and substantive progress in China since the founding of the new communist country in 1949. As in the most of developing counties after World War II, the Chinese public service system was established on the basis of a war-ruined country transformed from a semi-feudal and semi-colonial society. In other words, the foundations of public service were based on very poor conditions. The nation's GDP was only 67.9 billion yuan in 1952 (compared to 40 trillion yuan in 2012; China Statistic Yearbook 1980, 2013) and the majority of GDP was invested in economic reconstruction.

The specific political context determined the features of public service in China. As part of the communist institutions, the main characteristics of public service before 1978 could be summarized into the following four points: highly controlled by government, level-by-level management, highly egalitarian, and highly planned (Liu, 2009; Jiang, Deng, 2009). The Chinese public service was tightly controlled by the government, which monopolized the determination of needs, supply, and distribution of public goods. The basic public service system was established under the omnipotent and omni-prevalent plan system, including public health care, education service, social security provision, employment service, and

others. The public service sector was managed by government at different levels. The central government and local government shared different public financial responsibilities for the public service. The central government controlled the majority of public financial resources while the local governments had little flexibility in public service provision (Yu, 2008).

Another characteristic of public service was egalitarianism, which was also shown as a symbol of social justice in the communist society. The public goods were distributed to urban residents by the state based on work units,² while rural residents had to acquire public goods by themselves. Each village was obliged to decide as a collective on the category and standard of public service (Yu, 2011). The village economy was the main source of revenue for public service supply. Under the sway of the then prevalent political climate, the party-state was preoccupied with class struggle and production while little effort was made to improve public service. The practical guideline was “production first, life amenities second”. Meanwhile, constrained by the backward economic conditions, the central government’s revenue could cover only the basic public services in urban areas while rural public services depended on the village economy. Therefore, the public service was unbalanced between urban and rural areas. China’s national condition was such that farmers accounted for 90 per cent of the whole population in 1952 and the ratio remained as high as 82.1 per cent in 1978 (China Statistic Yearbook, 1980). The rural-urban divide was huge. Rural residents lived self-sufficiently as their ancestors had for hundreds of years before. The public expenditure financed mainly agricultural production and administration, capital construction, new product promotion, and rural relief purposes.

In this stage, the whole country still faced a big gap between the public service supply and people’s needs. Far inadequate amounts were spent on education, housing, and health care in rural areas, while in urban areas, public services were linked to work units, including housing, education, health care, and social security. The average level of public service was rather low in the whole country. Therefore, the main features of public service in the 1949–1978 period can be summarised as substandard, highly planned, and unbalanced.

² Work unit is called *Dan Wei* in Chinese, which means the working place of the people such as a factory, shop, school, hospital and office.

2.2. Reforms from 1978 to 2000

The economic reform of 1978 was a landmark in China. It was also a watershed in public service reform. According to Jiang and Deng, the reforms from 1978 to 2000 could be classified into three sub-stages (Jiang, Deng, 2009).

1978–1984. The six year period saw a recovery of public service. During the ten-year Cultural Revolution (1966–1976), the public service system was seriously damaged. In most provinces, certain vital public services were interrupted. For example, the primary schools and middle schools were closed for three or four years while normal teaching at universities had been suspended for seven years and later resumed operation at a limited scale. Middle school graduates were sent to the countryside to do farming. The heavily reduced public service provision capacity caused by political campaigns even resulted in de-urbanization measures in some cities, such as forcing urban families to move to the country to become villagers.³ During the Cultural Revolution, almost no new infrastructure construction projects were carried out to improve the basic public service. Therefore, when the reforms were launched in 1978, the whole country was faced with a serious shortage in public service supply. For example, in 1978 the percentage of graduates of junior middle schools entering senior middle schools was only 40.9 per cent and there were 1.93 hospital beds per 1,000 residents (China Statistic Yearbook, 1996).

When Deng Xiaoping was reappointed vice prime minister in 1977, the first reform measure he took was to resume the nation-wide university entrance examination system. Meanwhile, the Ministry of Education enacted the regulation of *Strengthening the Management of Teachers in Primary and Middle Schools and Recovering the Higher Education System*. It stipulated that 169 higher educational institutions resume operation. In 1980, primary middle school curricula were reformed. The basic legislation and policies were adopted in the public medical service field, including the policy allowing doctors to open private clinics, the *National Food Security Act*, and the *National Medicine Management Act*. They paved the way for the supervision of public medical service.

³ It was also called *Up to the Mountains and Down to the Villages* (上山下乡), a campaign during the Cultural Revolution that encouraged the educated youth to go to the field to work and to accept poor peasants re-education. As a result, the higher education was practically stopped from 1966–1976.

The main features of this period can be summed up into three points. Firstly, the public service framework continued to function in the era of planned economy, tightly controlled by the central government and executed by local governments. Secondly, education and public medical service were given priority by the reform-minded leaders. Thirdly, some restrictions that prevented citizens and social organizations from entering the public service sector were removed, which was an effective approach to relieving the shortage in public service resources at that time.

1985–1992. Along with economic reforms, the public service reform made obvious progress during the 1985–1992 period. In the education sector, the nine-year compulsory education policy was carried out throughout the country. The enrolment rate of school-age children reached 97.2 per cent in 1992 (China Statistic Yearbook, 1996). The higher education enrolment and graduate students job assignment systems were also reformed. Universities gained a higher degree of autonomy in teaching and management of internal affairs. The system under which the government assigned jobs to college graduates was abolished. Instead, the graduates were pushed into the newly opened job market and had to find jobs by themselves. The government's monopoly of the education sector was broken, allowing citizens and private organizations to run schools and colleges.

In the business sector, social security reforms also made good progress. Domestic economic reforms and the international wave of the New Public Management movement introduced the market mechanism into provision of social security services. Before 1985, the government was fully responsible for social security provision to employees and workers in the public sector. The reform transferred some social security policies, such as old-age pension, disability security, industrial injury programmes, unemployment insurance, health care insurance, etc. from state-owned enterprises to a social pool with the county, the city, or the province as an accounting unit. Previously, each work unit in such a state-owned enterprise had provided these benefits. The new three-party contribution mechanism was introduced according to which the government, employer, and employee shared the premium.

In health care, doctors and nurses were permitted to engage in paid service for additional work in their spare time. Medical service could be contracted out to private institutions. These measures were aimed at expanding the supply of medical services and revitalising the competition mechanism in hospitals.

The main characteristics of public service reform in this sub-stage can be summed up into the following five points. Firstly, the reform attempted to break the government's monopoly of public service supply. Private institutions and citizens were allowed to enter the public service sector for the first time. The reform also encouraged investors of different origins to participate in the public service supply, including overseas businesspeople and private entrepreneurs. Secondly, responsibility for public service was delegated to local governments. Local governments gained a wider autonomy in public service supply and implementation whereas the central government still controlled the macro policymaking. Thirdly, competition mechanism was imported into public service provision through contracting out and other market measures. Public organizations enjoyed greater freedom in their daily management and policy making. Fourthly, the shortage of public service in urban areas was relieved while rural areas remained ignored. Fifthly, the reform attempted to establish a market mechanism for public service provision and a new provision pattern was introduced based on the contract responsibility system, involving the government, work units, social organizations, and citizens.

1992–2000. Along with the widening of market-oriented economic reform, an increasing number of social problems emerged, such as lay-offs from state-owned enterprises (that was something new, since the government's full employment policy meant there had been no such thing as unemployment since the early 1950s); urban residents' increasing demand for public service caused by their improved financial circumstances; and the inadequate financial resources of local governments to cope with the growing public service needs. These problems spurred the central government to take further steps in public service reform. Comprehensive education reforms were carried out, involving education institutional management system, investment policy, recruitment policy and suspension of the government assignment of jobs to college graduates. An increasing number of market mechanisms were introduced into the education sector. As a result, the public expenditure on education increased substantially from 1992–2011 (Table 1). The investment sources were also diversified. Local governments contributed to increasing the amount of educational funds.

Table 1: Basic Statistics on Educational Funds

10,000 Yuan

Year	Total	Government Appropriation for Education	Public Expenditure on Education	Funds from Investors of Private Schools	Donations and Fund-raising for Running Schools	Income from Teaching Research and Other Auxiliary Activity	Tuition and Miscellaneous Fees	Other Educational Funds
1992	8670491	7287506	5387382		696285		439319	
1993	10599374	8677618	6443914	33323	701856		871477	
1994	14887813	11747396	8839795	107795	974487		1469228	
1995	18779501	14115233	10283930	203672	1628414		2012423	
1996	22623394	16717046	12119134	261999	1884190		2610361	
1997	25317326	18625416	13577262	301746	1706588		3260792	
1998	29490592	20324526	15655917	480314	1418537	6091515	3697474	1175700
1999	33490416	22871756	18157597	628957	1258694	7497174	4636108	1233835
2000	38490806	25626056	20856792	858537	1139557	9382717	5948304	1483939
2001	46376626	30570100	25823762	1280895	1128852	11575137	7456014	1821643
2002	54800278	34914048	31142383	1725549	1272791	14609169	9227792	2278722
2003	62082653	38506237	34538583	2590148	1045927	17218399	11214985	2721943
2004	72425989	44658575	40278158	3478529	934204	20114268	13465517	3240414
2005	84188391	51610759	46656939	4522185	931613	23399991	15530545	3723842
2006	98153087	63483648	57956138	5490583	899078	24073042	15523301	4206736
2007	121480663	82802142	76549082	809337	930584	31772357	21309082	5166242
2008	145007374	104496296	96855602	698479	1026663	33670711	23492983	5115225
2009	165027065	122310935	114193032	749829	1254991	35275939	25155983	5435371
2010	195618471	146700670	134895629	1054254	1078839	41060664	30155593	5724045
2011	238692936	185867009	168045617	1119320	1118675	44246927	33169742	6341005
C G	23356525	15634144	14413470		266793	6096208	2937487	1359380
L G	215336411	170232866	153632146	1119320	851882	38150719	30232255	4981625

Source: China Statistic Yearbook, 2013

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Housing reform followed this trend. Housing policy was changed from free provision of apartments to employees and workers by the work units

to commercialization of housing supply by increasing rents and subsidies. In health care, the reform converted a fully government-funded system into the three-party contribution mechanism. The government, employers, and employees shared the burden of medical expenditure. According to the government's design of healthcare reform, it was to play the supervisory role while hospitals and insurance companies were responsible for people's daily medical service. Expenditures on health care as percentage of GDP increased from 3.02 in 1978 to 5.36 by the end of 2012 (Table 2).

Table 2: Total Health Expenditure

Year	Total Health Expenditure (100 million Yuan)	Per Capital Health Expenditure (Yuan)		Health Expenditure as Percentage of GDP (%)
		Urban	Rural	
1978	110.21			3.02
1979	126.19			3.11
1980	143.23			3.15
1981	160.12			3.27
1982	177.53			3.33
1983	207.42			3.48
1984	242.07			3.36
1985	279.00			3.09
1986	315.90			3.07
1987	379.58			3.15
1988	488.04			3.24
1989	615.50			3.62
1990	747.39	158.80	38.80	4.00
1991	893.49	187.60	45.10	4.10
1992	1,096.86	222.00	54.70	4.07
1993	1,377.78	268.60	67.60	3.90
1994	1,761.24	332.60	86.30	3.65
1995	2,155.13	401.30	112.90	3.54
1996	2,709.42	467.40	150.70	3.81
1997	3,196.71	537.80	177.90	4.05
1998	3,678.72	625.90	194.60	4.36
1999	4,047.50	702.00	203.20	4.51
2000	4,586.63	813.74	214.65	4.62
2001	5,025.93	841.20	244.77	4.58

2002	5,790.03	987.07	259.33	4.81
2003	6,584.10	1,108.91	274.67	4.85
2004	7,590.29	1,261.93	301.61	4.75
2005	8,659.91	1,126.36	315.83	4.68
2006	9,843.34	1,248.30	361.89	4.55
2007	11,573.97	1,516.29	358.11	4.35
2008	14,535.40	1,861.76	455.19	4.63
2009	17,541.92	2,176.63	561.99	5.15
2010	19,980.39	2,315.48	666.30	4.98
2011	24,345.91	2,697.48	879.44	5.15
2012	27,846.84	2,969.01	1,055.89	5.36

a) Data in this table are at current prices. The 2011 data are preliminary.

b) Since 2006, it has included medical aid expenditure in urban and rural areas.

Source: China Statistic Yearbook, 2013

2.3. Public Service Reforms since 2000

Previous public service reforms and rapid economic growth have made a good foundation for public services in the new century. Public services are able to cover more fields with higher standards (Table 3). In each field, the expenditure has been increased steadily, although the problems remain.

Table 3: Main Items of National Government Expenditure (2012)

(100 million Yuan)

Item	National Government Expenditure	Central Government	Local Government
National government expenditure	125,952.97	18,764.63	107,188.34
Expenditure for general public services	12,700.46	998.32	11,702.14
Expenditure for foreign affairs	333.83	332.39	1.44
Expenditure for national defence	6,691.92	6,481.38	210.54

Expenditure for public security	7,111.60	1,183.47	5,928.13
Expenditure for education	21,242.10	1,101.46	20,140.64
Expenditure for science and technology	4,452.63	2,210.43	2,242.20
Expenditure for culture, sport and media	2,268.35	193.56	2,074.79
Expenditure for social safety net and employment effort	12,585.52	585.67	11,999.85
Expenditure for health care	7,245.11	74.29	7,170.82
Expenditure for environment protection	2,963.46	63.65	2,899.81
Expenditure for urban and rural community affairs	9,079.12	18.19	9,060.93
Expenditure for agriculture, forestry and water conservancy	11,973.88	502.49	11,471.39
Expenditure for transportation	8,196.16	863.59	7,332.57
Expenditure for affairs of exploration, power and information	4,407.68	473.15	3,934.53
Expenditure for affairs of commerce and services	1,371.80	20.09	1,351.71
Expenditure for affairs of financial supervision	459.28	209.59	249.69
Expenditure for post-earthquake recovery and reconstruction	103.81	na	103.81
Expenditure for other regional assistance	126.56	na	126.56
Expenditure for affairs of land and weather	1,665.67	298.08	1,367.59
Expenditure for affairs of housing security	4,479.62	410.91	4,068.71
Expenditure for affairs of management of grain & oil reserves	1,376.29	645.20	731.09
Expenditure for the principal and interest of national debts	2,635.74	2,060.41	575.33
Other expenditure	2,482.38	38.31	2,444.07

Source: China Statistic Yearbook, 2013

The changes in public expenditure from 1978 to 2010 showed the trend of public service reform (Table 4). The priority of public expenditure turned from economic construction to culture, education, health care, and other public services. The share of economic construction in total expenditure shrank from 64.8 per cent in 1978 to nearly 30 per cent in 2010 (Table 4).

Table 4: The Changes of Public Expenditure from 1978–2010

Year	Economic Construction	Culture and education	National defence	Administration	Other
1978	64.80	13.10	14.96	4.71	3.16
1980	58.22	16.20	15.77	6.15	3.66
1985	56.26	20.38	9.56	8.53	5.27
1990	44.36	23.92	9.41	13.44	8.86
1991	42.18	25.09	9.75	12.22	10.75
1992	43.10	25.92	10.1	12.38	8.50
1993	39.52	25.38	9.17	13.66	12.26
1994	41.32	25.92	9.51	14.63	8.61
1995	41.85	25.74	9.33	14.60	8.47
1996	40.74	26.21	9.07	14.93	9.04
1997	39.50	26.74	8.80	14.72	10.24
1998	38.71	27.10	8.70	14.80	10.70
1999	38.40	27.60	8.20	15.30	10.50
2000	36.19	27.60	7.60	17.42	11.19
2001	34.22	27.60	7.60	18.60	12.00
2002	30.26	26.87	7.74	18.60	16.53
2003	28.04	26.24	7.74	19.03	18.94
2004	27.85	26.29	7.72	19.38	18.75
2005	27.46	26.39	7.29	19.19	19.67
2006	26.56	26.83	7.37	18.73	20.51
2007	29.78	27.05	7.14	25.51	10.52
2008	31.47	27.01	6.68	24.67	10.17
2009	33.39	26.42	6.49	20.05	13.65
2010	34.21	28.48	5.93	21.30	10.08

Source: China Statistic Yearbook, 2011

Although the achievements are remarkable, we should notice the problems in public service reforms. Same as with the incremental strategy of China's overall reforms, the most difficult part is always left behind. Public service reforms in China are facing certain challenges, for example, the equality of access to public service, and disparities among social groups and between different regions. These challenges are related to the fundamental institutions.

3. The Institutional Changes and Analyses

The institutionalism theory states that history matters. Paths chosen or designed early on in the existence of an institution tend to be followed throughout its development. Institutions will have an inherent agenda based on the development pattern, both informal (the way things are generally done) and formal (laws, rules, and institutional interaction).

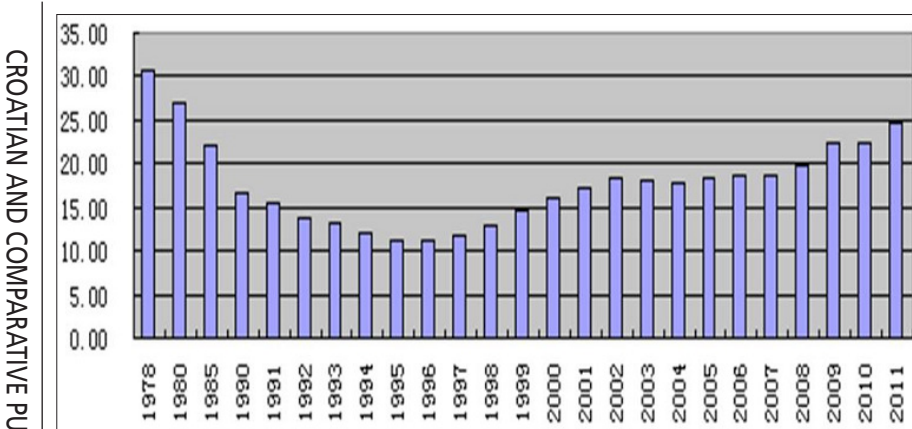
A key concept is path dependence – the historical track of a given institution or polity will result in almost inevitable occurrences. In some institutions, this may be a self-perpetuating cycle: actions of one type beget further actions of this type. However, this theory does not hold that institutional paths will be inevitable forever. Critical junctures may allow rapid change at a time of great crisis.

The theory holds true in the study of public service reform in China. China has followed a different path from reforms in OECD countries because of its different departure point (relatively underdeveloped, centrally planned economy, and one party rule; Burns, 2000). In general, public service reforms support the theory of path dependence. In this section, we will analyse the institutional changes and attempt to explore the path of public service reform in a special context.

The main characteristic of public service reform in China is that it has been carried out in the context of the country's transition from a planned economy to a market economy and that the foundations of public service were poor. This might be a common feature of all countries in transition. The progress of public service reform was determined by the depth of political and economic reform. For 30 years (1949-1978) after the establishment of the People's Republic, the party-state's focus had been on building the basic public service system for urban residents. The newly instituted system was seriously damaged during the ten-year Cultural Revolution. With the successful economic reform initiated in 1978, the

economic foundation for public service got better and more solid. The government became more capable of providing public service and social welfare. The proportion of public expenditure in GDP showed a “V” shape curve from 1978 to 2011 (Figure 1). That is a path characteristic of the country transformed from a planned to a market economy. At the beginning of the reform, public expenditure continued in the circumstances of the planned economy, in which all levels of government shared a major responsibility for public services. With the deepening of the reform, an increasing number of government responsibilities were transferred to the market. The down curve of public expenditure from 1978 to 1996 can be observed from Figure 1. When market reforms had made substantial progress in China, external and internal pressures forced the government to increase the public service spending (Yu, 2008). Thus, the “V” curve in public expenditure. The “V” curve reflects not only the quantitative changes in public expenditure, but also the qualitative improvements in public service and people’s life. Compared with the level of public service in 1978, people now receive more and better public services.

Figure 1: The Proportion of Public Finance Expenditure in GDP (1978–2011)



Source: China Statistic Yearbook, 2012

Why do public service reforms occur in such a specific routine? We can identify the following three points as factors influencing the institutional changes in the public service reform. First, the political context plays a vital role; each time the driving force of public service reform comes from

political reform. The economic reform launched in 1978 gradually built up the momentum of public service reform. However, at the beginning of the transition process, the mentality of the party-state leadership was still restrained by the doctrine of planned economy. They were hesitant to break the basic principles of socialism as defined by Mao Zedong. A major breakthrough was made by Deng Xiaoping's historic tour to Southern China in 1992 when he decided to place China on the track of market economy, putting an end to the debates on the socialist or capitalist nature of the country's reform and on the boundary of responsibilities between the government and the market.⁴ Chinese economy boomed thereafter. In each stage of public service reforms, the final policy reflects results of negotiation on the fundamental issues, such as how to show the advantages of socialism in public service provision, who could offer the public goods efficiently, how to handle the competition between state-owned companies and the private sector in public service supply, etc. The roots of these discussions are always related with the principles of the Communist Party. That is why some scholars claim that the public service reform was determined by the institutional design at the top of political power (Gao, 2013; Yu, 2008). In short, the political context determines and influences the direction and speed of public service reform.

Secondly, the economic basis influences the depth and scope of public service reform. Constrained by the poor economic conditions, the public service could not cover all the fields that people demanded. That was the reason why the reform only started in few sectors as noted previously, such as education, which was the first and most seriously damaged by the Cultural Revolution. As the economic boom augmented the state budget, the reform could be extended to other fields. On the one hand, economic growth brought about pressure on public service reform. Urbanization was accelerated along with economic development in China, requiring the government to take measures to meet the increasing demands on education, health care, social security, infrastructure construction, and other

⁴ Influenced by the ideology of the Communist Party, these principles were seen as the basic characteristics of a socialist country, such as planned economy and the state-owned enterprises. The market economy was seen as a feature of capitalism. Anyone who challenged these principles would be accused of undermining the foundation of the socialist country. The main message made by Deng during his visit to Southern China was that the essential difference between socialism and capitalism is not a planned economy or a market economy but the ability of promoting productivity. This is in the same vein of his pragmatism as expressed three decades earlier: it does not matter whether a cat is black or white – it is a good one as long as it catches mice.

public goods (Sun, 2004). On the other hand, the increasing demands that resulted from economic growth created some new challenges for the local government as direct provider of all kinds of public services. These challenges forced the government to change the pattern and player of public goods supply. The private sector demands for more rights to enter the public service field. Therefore, economic reforms are not only the foundation but also the driving force of public service reforms in China.

Thirdly, globalization is another important factor. Globalization has a profound impact on every corner of the Chinese society. As Yu (2008: 1) noted, economic globalization has also changed political structure and process profoundly, thus injecting new life into political process. China has been deeply connected with the world ever since it joined the WTO in 2001. The WTO regulations require the Chinese government to further reform the public sector, and define the boundary between the government and market clearly. Meanwhile, the economic reform also carries with it many new responsibilities to be dealt with by offering more public services, such as the unemployed workers from the state-owned enterprises and millions of migrant workers from rural areas. These require the urban government to cope with the new demands for schools, hospitals, public housing, and the related social institutions such as pensions, medical insurance and unemployment benefits.⁵ The role of the government has transformed from the sole player of public service provision to pay-master in this process. Furthermore, globalization has propagated certain political values, such as freedom, democracy, human rights, which are in turn expressed as increasing demands for new public services. In this point, globalization has generated external and internal driving forces for public service reforms in China.

We have briefly reconstructed the process of public service reform in China. The political context sets the background and is the key impetus of the reform. The economic basis determines the scope and standard of public service. The reforms started from a few sectors requiring immediate action. With rapid economic growth, the public service reform has expanded to cover more fields. Globalization plays a complex role in this

⁵ As part of the economic reform in state-owned enterprises, 6 million workers were laid-off from previous jobs in order to improve efficiency. Meanwhile, it is estimated there are 0.2 billion floating laborers who were farmers from the rural areas. Moreover, the income disparity and other issues brought about by rapid economic growth are challenging the governments' capacities for public service delivery. These pressures require the government to take more effective measures in public service reforms and in governance.

process. Public service reform in China is a case of a country in transition with path dependence. The specific political context and economic foundation determine the starting point of the reform. During the process of incremental reform, the political and economic changes push the reform to move ahead. Globalization adds uncertainty to the future of public service reforms in China.

4. Current Problems and the Future of Public Service Reform in China

4.1. Current Problems

Although the Chinese government has achieved steady progress in public service reform, it also faces daunting challenges, which can be summarized into the following five points.

Firstly, the public service capacity is still far from adequate. On the one hand, compared with the spending on public service in 1978, the expenditure level increased by 112 times in 2012 (from 1,122 billion Yuan in 1978 to 125,952.97 billion Yuan in 2012; China Statistic Yearbook, 2000, 2013). On the other hand, the level of public service in China is still lower than in most of the developed countries (the USA, the UK, France, Germany and Japan) and in some developing countries (India and Brazil) (Table 5).

Table 5: Comparing the Level of Public Service Internationally

Indicators in public service	The USA	The UK	France	Germany	Japan	India	Brazil	China
Public education expenditure in GDP (2010)	5.6	6.3	5.9	5.1	3.8	3.3	5.8	2.79
Health care expenditure in GDP (2011)	17.9	9.3	11.6	11.1	9.3	3.9	9.0	5.20
Social security expenditure in GDP (2010)	5.0 (2011)	13.2 (2011)	30.0	32.4	13.7 (1998)	3.9	11.7 (2007)	2.28

Source: World Bank, 2013

Secondly, the institutional constraints remain. The reforms have transferred some government functions to the market. However, the government is still the decision maker, public service provider, and supervisor in some fields, such as education, health care, and housing. In other words, the government still plays the simultaneous role of player and judge. The situation impedes the party-state's effort at building a service-oriented government. Too much attention has been paid to economic development. This point can be seen from the proportion of investment in the productive sector in the total public expenditure, which accounted for more than 40 per cent from 1949 to 1996. This is the manifestation of GDP-centered development strategy. Meanwhile, we noted that there is not a clearly defined responsibility for public service between the central and local governments. There is no law to specify the respective jurisdictions of the central and local governments. Some functions overlap. Certain functions are actually not within the complete remit of either side. For example, the public infrastructure, education, and health care are the responsibility of local governments but the central government fails to provide them with sufficient amount of corresponding revenue under the shared tax system, which has been implemented since 1994 (Yu, 2011). The GDP-orientated performance evaluation mechanism might be one reason to push the local government to focus on economic development to the neglect of public service provision (Xia, 2013; Yu, 2011). Therefore, it is urgent to reform the fundamental public service institutions.

Thirdly, the unequal development of public service is still a serious problem. The disparity of public service is shown in three aspects. One aspect is the unequal development between urban and rural areas. The urban-rural dichotomy has been a historical problem in most of the developing countries (Yu, 2011; Wang, Wong, 2009). In order to support industrialization and accumulation at the take-off stage in a country's economic development, the public expenditure was spent mainly on urban areas. Even in the 1980-90s, the supply of public service in rural areas of China was in a vacuum (Yu, 2011: 7). The urban-rural dichotomy resulted in serious problems in each public service sector (Wang, Wong, 2009). For example, in 2003 urban medical service spending per capita was five times that of rural farmers (Liu, 2009). The farmers, who accounted for 63 per cent of the population, could only enjoy 20 per cent of medical service resources in 2003 (Liu, 2009). Yet another aspect is the unequal development of different regions. For example, in western China in 2003, farmers covered by old age pension accounted for 20 per cent in the whole nation. In 2003, only 5 per cent of the farmers in western China could en-

joy the public medical service, while the figure was 50 per cent in eastern China (Liu, 2009). A third aspect is the unequal development of public service among different groups. The migrant population (mainly farmers), estimated at about 200 million, cannot enjoy equal public service, including social security, as can urban citizens. The unemployed workers from state-owned enterprises could not enjoy same social security level as the employed workers. Farmers could not get equal public service as urban residents in quantity and quality (Table 6).

Table 6: The Number of People Receiving Social Assistance (2002–2006)

Unit: 10,000 people

Year	2002	2003	2004	2005	2006
Urban citizens who received the minimum living security	2,064.7	2,246.8	2,205.0	2,234.2	2,240.1
Farmers who received the minimum living security	407.8	367.1	488.0	825.0	1,593.1
Farmers who received the traditional social assistance	497.8	1,160.5	1,402.1	1,891.8	2,987.8

Source: China Statistic Yearbook, 2007

Fourthly, the financial resources for public services are not sufficient. Currently, the government expenditure on public services is too low to meet the people's needs. For example, the public spending on education accounted for 2.28 per cent of GDP in 2011, which was far below the world average of 7 per cent of GDP. The figure for some developed countries is even higher – 9 per cent of GDP (Table 5). In addition, the central government's financial transfer payments to local governments are problematic. They are usually diverted by local governments, especially those in the western region, to make up for the shortfall in the salaries and wages of civil servants, and little is left for the actual provision of public service to the local residents. Furthermore, the public budget is not managed properly (Yu, 2008; Yu, 2011).

Fifthly, the overall provision of public service is poor. The main task of public service reform is to change the traditional government into service-oriented government. However, the public service motivation of civil servants still has a long way to go before meeting the requirements of a service-orientated government (Liu, 2009; Jiang, Deng, 2009). Influenced by the traditional culture of officialdom, some civil servants pay

more attention to maintaining their position and maximizing their power than considering how to perform their duty as real servants of the people. Some lack creativity in service provision. Some are not competent in public management and public service, thus affecting the quality of services provided to citizens. In some occasions, red tape, and corruption prevail in the local government. From the performance management perspective, local governments still do not have an effective performance evaluation mechanism. These factors are the key reasons for the poor performance of public service in practice.

4.2. The Future of Public Service Reforms in China

It is always venturesome to predict the future. Our predictions are based on precondition that the economic growth will be maintained, the whole society will remain stable, etc. More specifically, however, the future is to a large extent determined by the current policy and its implementation as well as the prevailing trend in public service reform and current problems. Based on our analyses, the future of public service reforms in China is likely to hinge on the following three points.

First, it is likely that the government will regain its role of the main provider of public service. From the 1980s to 2000s, the market-oriented reform too readily relieved the government of its responsibilities for providing basic public services by shifting costs to citizens. The situation was so serious that many ordinary people found it difficult to pay for their children's education; it was too expensive to see a doctor, purchase an apartment, or pay the rent. The cost of education, seeing a doctor and paying for housing became the "new three maxims"⁶ weighing down on the ordinary people. The new Xi-Li leadership that came to power in 2012–13 has promised to take meeting citizens' basic public service needs as a priority of the government policy. In order to realize this objective, the government is resetting the boundaries between its role and the extent the market mechanism can be resorted to, as well as and between the central and local governments. The national legislature is considering enacting specific laws on public service, defining the respective responsibilities of the central government and local governments. The public services to be provided by local governments will be guaranteed

⁶ The old three maxims were imperialism, feudalism, and comprador-capitalism, which the communist revolution overthrew in 1949 as the Communist Party claims.

the necessary financial resources. In the process of public service provision, performance management of each government level will be implemented more effectively.

Second, the equalization of public service as a government goal will be implemented gradually. The disparities in terms of access to public services between rural and urban residents, between the residents of different regions and between different social groups are currently factors affecting the social stability and people's satisfaction with life and with the government. The new leadership has taken measures to ensure the equal opportunity for all citizens. The central government has begun to provide financial support to rural residents for their compulsory education, cooperative medical insurance, and pension programmes. In urban areas, various subsidy programmes have been intended for low-income citizens. The basic urban public services are gradually open to the migrant workers and their families from the countryside. The central government has promised to increase its transfer payments to the local government in western China to reduce the gap between it and the eastern coastal region in terms of the quantity and quality of public services provided to the residents.

Third, the stakeholders other than the government will increase their role and a multi-participation mechanism in public service provision will be established. The reforms have opened the door to multi stakeholders participating in the supply of public goods. However, the government remains the main stakeholder. Other actors, such as private companies and social organizations have recently been allowed to participate in the provision of public services. More fields will be opened to them, such as hospitals, schools, and homes for the elderly. The Shanghai Municipal Government was the first in experimenting with purchase of the services provided by social organizations. In this way, the government does not need to set up institutions and employ staff. Under the central government's policy of strict control of the establishment quota of agencies and civil servants, this is an effective way out. The existing government-run institutions have improved services after facing competition. The government is exploring other forms of public service provision, such as contracting out, franchised operation and so on. Citizens and other stakeholders will get involved in the process of public service provision. These measures will help improve the transparency and fairness of public service supply.

4. Conclusion

This paper has reviewed the history of public service reform in China. As part of the wave in global New Public Management reforms, the Chinese story confirms the theory of historical institutionalism. The specific political and economic background has influenced public service reforms to a large extent, which is also the main challenge they face in their future development. Without good industrialization and urbanization policies and a comprehensive political reform programme, the public service reform was doomed to be a difficult project. This may be a common feature of countries in transition. The deeper the reforms are carried out, the tougher the political and institutional obstacles.

The Chinese experience has shown a path to reform the public service from a highly controlled mechanism in a planned economy to a market economy. The service-oriented government will treat all citizens equally and that is why the participation of multiple stakeholders in public service supply is a desirable policy choice. Some mechanisms such as contracting out and franchise will be a common feature of public service provision in both China and the OECD countries.

However, the public service reform in China still shows some characteristics different from the developed countries. The most prominent is that the Communist Party's role is decisive; public service is determined by the party's service motivation.

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PUBLIC SERVICE REFORM IN CHINA

Summary

The article reviews the history of public service reform in China. It shows the special path of public service reform in a country transformed from a planned socialist mechanism to a market economy. The public service reform in China is distinctive by its incremental nature. The article is based on the theory of historical institutionalism. The analysis of path dependence of the reform is made from the perspectives of political context, economic foundation, and globalization. The qualitative research method is employed. The article concludes with a summary of current problems and prediction for the future of public service reform in China.

Keywords: public service reform, China, historical institutionalism, path dependence, transition

REFORMA JAVNIH SLUŽBI U KINI

Sažetak

U radu se analizira povijest reformi javnih službi u Kini. Ona pokazuje posebnu razvojnu liniju reforme javnih službi u zemlji koja se transformira od planskog socijalističkog mehanizma prema tržišnoj ekonomiji. Različitost reforme javnih službi u Kini temelji se na njezinoj specifičnoj postupnoj prirodi. Rad je teorijski utemeljen na povijesnom institucionalizmu. Analiza ovisnosti o prijašnjem reformskom putu uzima u obzir politički kontekst, ekonomske temelje i globalizaciju. Koristi se kvalitativna istraživačka metoda. Rad završava sažetom elaboracijom sadašnjih problema i predviđanjem budućeg tijeka reforme javnih službi u Kini.

Ključne riječi: reforma javnih službi, Kina, povijesni institucionalizam, prijašnji put, tranzicija